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UNITED NATIONS OFFICE FOR PROJECT SERVICES

Risk management, reserves and surplus income

Revised budget estimates for the biennium 1996-1997 and budget estimates for the biennium 1998-1999

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the reports of the Executive Director of the United Nations Office for Project Services (UNOPS) on risk management, reserves and surplus income (DP/1997/26) and on the revised budget estimates for the biennium 1996-1997 and estimates for the biennium 1998-1999 (DP/1997/29). In addition, as a background document, the Committee had before it the interim financial statements for the year ended 31 December 1996. During its consideration of these items, the Committee met with representatives of the Executive Director who provided additional information.

Risk management, reserves and surplus income

2. The report of the Executive Director on risk management reserves and surplus income indicates that a comprehensive review of UNOPS's risks and liabilities has revealed that the current operational reserve, set at $6.8 million or approximately 20 per cent of the annual administrative budget of UNOPS, does not adequately protect UNOPS against the risks to which it is exposed as a self-financing operational organization (DP/1997/26, paras. 9-10). The Executive Director recommends in his report that the funding level of the reserve be set at 4 per cent of the combined expenditure on administrative and project budgets of the previous year. Based on the total expenditure of $465.2 million in 1996, the reserve would be set at $18.6 million for the biennium 1998-1999 (DP/1997/26, paras. 18-19). The Executive Director proposes to review the appropriateness of the reserve level on a biennial basis in conjunction with the budget submission and to report annually on drawdowns from the reserve in the UNOPS financial statements (DP/1997/26, para. 28).

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3. The Advisory Committee welcomes the report of the Executive Director, which was prepared taking into account observations made by the ACABQ in its reports DP/1994/57 and DP/1995/13. The Committee recommends that the Executive Board accept the proposal of the Executive Director.

4. The Advisory Committee notes from paragraphs 6 and 19 of document DP/1997/26 that UNOPS has made cautious and conservative assumptions with regard to the types and extent of risk exposure and that although it has recovered from the downturn of 1993-1994, it has concluded that it is premature to expect that the positive results of 1994-1995 would establish a long-term trend. The Committee notes that the financial uncertainty in 1993-1994 resulted in the slowdown or deferral of some administrative expenditures, in particular in information systems. This fiscal restraint has resulted in increases of unspent income balances. As of 31 December 1996, UNOPS reported accumulated unspent income of $10.8 million, which added to the current operational reserve of $6.8 million resulted in a total of reserves and accumulated unspent income of $17.6 million.

5. Upon inquiry, the Advisory Committee was informed that, as indicated in paragraph 21 of document DP/1997/29, UNOPS has initiated a study for deciding upon the information system strategy to be followed for the year 2000 and beyond and assessing in particular the potential implications and impact of the use by UNOPS of the United Nations Integrated Management Information System (IMIS) project. The Committee was informed that the Executive Director proposes, as a matter of priority, to use part of the accumulated unspent income in 1998-1999 for systems development. Very preliminary estimates for systems development expenditure are about $4.3 million for 1998-1999 and, consequently, this amount would not be available from surplus income for the replenishment of the operational reserve. The Committee points out that this amount of $4.3 million for systems is in addition to $2.6 million estimated for systems development contracts and microcomputer hardware and software in 1998-1999 (see para. 16 below and DP/1997/29, table 2).

Revised administrative budget for 1996-1997

6. As indicated in paragraph 7 and table 1 of document DP/1997/29, the revised projection of income for the biennium 1996-1997 amounts to $77.4 million, or $10.2 million more than originally projected. The revised administrative budget proposal for 1996-1997 amounts to $70.6 million, or about $5.2 million more than the approved administrative budget of $65.4 million for 1996-1997 (DP/1997/29, table 2).

7. In 1996, total income amounted to $36.8 million, comprising $31.6 million from project delivery (of $430.8 million) and other income of $5.2 million. Administrative expenditures totalled $32.2 million in 1996. For 1997, total income is projected at $40.6 million, comprising $35.3 million from projected project delivery (of $500 million) and other income of $5.3 million. The projected revised administrative expenditure for 1997 amounts to $38.5 million (DP/1997/29, paras. 8-12 and table 1). The Committee was provided, upon request, with the service rates charged by UNOPS in 1996 (see annex I to the present report).

8. The Advisory Committee notes from paragraph 8 of document DP/1997/29 that the target for project delivery of $500 million in 1997 represents a 16 per cent increase in project delivery as compared to 1996 delivery and may, in fact, be "a very real challenge to UNOPS." The Committee notes that the financial viability of UNOPS as an entirely self-financing entity depends on the demand for UNOPS services.

9. As indicated in paragraph 6 of the annual report of the Executive Director (DP/1997/19), the composition of the newly acquired portfolio of UNOPS in 1996 included UNDP core resources, with the largest share of 37 per cent, followed by Management Services Agreements with international financial institutions and bilateral donors (especially Japan), with 30 per cent; UNDP Trust Funds, the Global Environmental Facility and the Montreal Protocol, with 19 per cent; and Governments of recipient countries and other United Nations agencies and programmes, with 14 per cent. The Committee is aware of the continued decline in overseas development assistance to the United Nations development activities, which will affect the overall resources available to UNDP and, consequently, the demand for UNOPS services. In this connection, the Committee notes that "UNDP has shifted from a funds provider to a service provider, from providing equipment to providing knowledge-based services, where ideas, best practices, analysis, advocacy, connections to expertise, etc. are the heart of UNDP work" (DP/1997/23, para. 9). The Committee is of the view that the division of labour between UNOPS and UNDP merits some review, in the light of the latter's newly defined emerging dual role. The Committee stresses the need for UNOPS to redouble its efforts to diversify its portfolio.

10. The Advisory Committee notes that "with the current growth in business volume and related need for delivery capacity, the number of personnel... is expected to increase through 1997 and then stabilized at the 1997 level through the 1998-1999 biennium" (DP/1997/29, para. 13). The Committee further notes that, under its delegated authority, during the 1996-1997 biennium, the Executive Director will increase the total of 244 established posts to 281 posts. This additional 37 posts includes 4 posts to be assigned to a regional office at Abidjan, Cote d'Ivoire. In paragraph 15 of document DP/1997/29, the Executive Director requests the endorsement of the Executive Board. The Advisory Committee recommends acceptance of the Executive Director's request. In this connection, the Committee trust that UNOPS will continue to manage posts in a flexible manner.

11. Upon inquiry, the Committee was informed that the office in Abidjan, as another established in Nairobi, Kenya, will provide regional support to projects of the International Fund for Agricultural Development (IFAD); the heads of these offices report to the Chief of the IFAD Division in UNOPS headquarters. Other decentralized offices of UNOPS include the Rehabilitation and Social Sustainability Unit in Geneva (with a sub-unit in El Salvador), the Procurement Projects Division in Copenhagen and the Asia Office in Kuala Lumpur, Malaysia; these three offices report to the Director of Operations at UNOPS headquarters.

12. Reimbursement to UNDP for services provided are discussed in paragraphs 17-19 of document DP/1997/29. The Advisory Committee notes that the total reimbursement to UNDP for compensation to the UNDP country offices for additional costs they incur while providing services to UNOPS projects and for

UNDP central services (including those provided by the Division for Audit and Management review of UNDP and the UNOPS share of United Nations central services) amount to $6.0 million in 1996 and $6.2 million in 1997 (DP/1997/29, table 2). The Committee notes that these services and the costs associated with them are under study and that the results of this study will be incorporated in the next available budget submission.

Administrative budget for 1998-1999

13. For the 1998-1999 biennium, UNOPS total income projections amount to $84.7 million, comprising income of $74.1 million (from project delivery estimates of $1,050 million) and other income of $10.6 million. The administrative budget expenditure is proposed at the level of $84.7 million; no surplus income is foreseen (DP/1997/29, paras. 22-23 and table 1).

14. The Advisory Committee is of the view that the rapid increase in programme delivery that started in 1995 and continued in 1996 is directly related to the implementation of the UNOPS reform and the introduction of new work methods, together with enhanced computer-based information systems (see DP/1997/19, paras. 18-24). For the 1998-1999 biennium, the Committee doubts that the increases in project delivery can be sustained. The Committee trusts that the UNOPS resources will continue to be managed in a manner consistent with its self-financing status. The Committee notes that UNOPS is confident that the tools that it has developed - the Financial Management Model and the business planning process - will permit it to maintain a tight balance between providing quality of services and competitive administrative overhead costs.

15. With regard to the budget estimates for the decentralized offices mentioned in paragraph 11 above, upon inquiry, the Advisory Committee was provided with information on the proposed staffing and costs estimates for 1998-1999 (see annex II to this report). The Committee understands that offices away from headquarters also operate on a self-financing basis and that the continued financial viability of UNOPS decentralized offices is reviewed on an annual basis (see DP/1997/19, para. 21). The Committee is of the view that UNOPS, before attempting to open separate new field offices, should explore the possibility of sharing common premises and services with other agencies in the field, so that further economies may be realized in its field operations.

16. The Advisory Committee notes from table 2 of document DP/1997/29 that the Executive Director proposes a total expenditure of $6,912,000 for electronic data processing systems compared to $2,625,000 proposed in the revised estimates for 1996-1997. The Committee trusts that UNOPS will take into account in its evaluation process of various systems development options the systems modules developed by the United Nations IMIS and use these to the extent that they are cost effective in the operations of UNOPS.

Annex I

Table of UNOPS "Overhead" Rates

Source of Funds	1996 Delivery		1996 Gross Income			
	Amount ($M)	% of Total Delivery	Ave. Income Rate	Amount ($M)	% of Delivery Income	% of Total Income
INCOME FROM IMPLEMENTATION OF PROJECTS ENTRUSTED TO UNOPS						
UNDP Funded Projects	$162.4	37.7%	10.1%	$16.5	52.2%	44.8%
UNOPS as Cooperating/ Associated Agency	$20.0	4.6%	9.5%	$1.9	6.0%	5.2%
UNDCP Funded Projects	$8.9	2.1%	7.9%	$0.7	2.2%	1.9%
Trust Fund Projects	$88.4	20.5%	7.0%	$6.1	19.3%	16.6%
Other UN Organizations	$0.9	0.2%	7.8%	$0.1	0.3%	0.2%
Management Services Agreements	$150.2	34.9%	4.2%	$6.3	20.0%	17.1%
TOTAL FROM DELIVERY	**$430.8**	**100%**	**7.3%**	**$31.6**	**100%**	**85.8%**
INCOME FROM IFAD LOAN ADMINISTRATION & PROJECT SUPERVISION (SERVICES ONLY)						
IFAD	NA	NA	NA	$3.3	NA	9.0%
OTHER INCOME						
Interest, PAPP, and other	NA	NA	NA	$1.9	NA	5.2%
TOTAL	**$430.8**	**100%**	**8.5%**	**$36.8**	**NA**	**100%**

Annex II

UNITED NATIONS OFFICE FOR PROJECT SERVICES

SUMMARY OF BUDGETED COST AND FORECAST STAFFING FOR DECENTRALIZED OFFICES FOR THE BIENNIUM 1998/99

(Figures quoted in $ millions)

	Costs			Staff		
Office/location	Staff	Non-staff	Total	Prof.	G/S	Total
Copenhagen	4.4	1.9	6.3	11	19	30
Kuala Lumpur	3.9	1.3	5.2	11	18	29
RESS unit (Geneva/ El Salvador)	2.5	0.8	3.3	4	11	15
Nairobi	0.9	0.2	1.1	3	5	8
Abidjan	0.3	0.1	0.4	2	4	6
TOTAL	12	4.3	16.3	31	57	88

This summary excludes any New York costs for support management or central services.